

June 4, 2003

**VIA FACSIMILE**

Michael J. Ryan  
Area Manager  
U.S. Department of the Interior Bureau of Reclamation  
16349 Shasta Dam Blvd.  
Shasta Lake, CA 96019

Re: Sutter Mutual Water Company -- Renewal Contract

Dear Mike:

During the last negotiating session on the renewal contract for Sutter Mutual Water Company (the "Company"), the Company agreed to provide the United States Bureau of Reclamation ("Reclamation") with two documents: (i) a counter-proposal to Reclamation's offer to renew the Company's settlement contract at a contract quantity of 220,000 afy and (ii) a response to Reclamation's document entitled "Technical Analysis of Sutter Mutual Water Company's Water Needs." The Company will provide its written comments of the final Water Needs Analysis to Reclamation during this Friday's negotiating session.

The Company proposes that its water rights settlement contract be renewed on the following key terms. First, the total contract quantity would be 238,000 afy. Attached for your review is a memorandum prepared by MBK Engineers that explains the Company's rationale for this contract quantity. In brief, the Company believes that this contract quantity is supported by: (i) actual diversion data, with minor adjustments for changes in rice acreage; (ii) the results of a spreadsheet that has shown the ability to model the Company's actual diversions over the past 12 years; and (iii) the analysis in the Basin-Wide Management Plan, which Reclamation agreed should serve as the technical basis for these negotiations.

Second, the Company proposes that Project Water compose 25% of its total contract quantity. This percentage is greater than the percentage of Project Water in any of the contracts for the other major Sacramento River Settlement Contractors that have water rights of approximately the same priority as those of the Company.

Third, as a consequence of the initial two points, the Company is prepared to turn back to Reclamation approximately 35,000 af of Project Water. In exchange for such a substantial reduction in its contract quantity and as partial compensation for Reclamation's view that the

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Company bear the risk of increased salinity, the Company seeks an additional 5,625 afy of Base Supply and proposes to move a total of 23,025 afy of this augmented quantity of Base Supply into July, August and September. The increase and reallocation of Base Supply is necessary in order to bring the Company's percentage of Project Water into line with the percentage of other Sacramento River Settlement Contractors and in order to meet demonstrated water demands during July, August and September.

In summary, this proposal is intended by the Company as a good-faith effort to bridge the gap between Reclamation's last proposal of 220,000 afy and the Company's last proposal of 247,900 afy, recognizing the technical information provided by MBK Engineers and the Company's senior water rights.

The Company looks forward to discussing this proposal with you at the negotiating session on June 6. Please feel free to call if you have any questions.

Very truly yours,

David R.E. Aladjem

cc: Max Sakato